



**STATEMENT OF INVESTMENT POLICIES,  
STANDARDS AND PROCEDURES**

**24 JUNE 2021**



## Table of Contents

<b>1</b>	<b>Introduction .....</b>	<b>2</b>
<b>2</b>	<b>Asset Classes and Selection Criteria.....</b>	<b>7</b>
<b>3</b>	<b>Benchmarks.....</b>	<b>8</b>
<b>4</b>	<b>Reporting Standards .....</b>	<b>9</b>
<b>5</b>	<b>Responsible Investment .....</b>	<b>11</b>
<b>6</b>	<b>Balance Between Risk and Return.....</b>	<b>14</b>
<b>7</b>	<b>Fund Management Structure .....</b>	<b>15</b>
<b>8</b>	<b>Derivatives, short selling and securities lending.....</b>	<b>19</b>
<b>9</b>	<b>Risk Management.....</b>	<b>23</b>
<b>10</b>	<b>Valuation of Unlisted Assets .....</b>	<b>24</b>
<b>11</b>	<b>Investment Constraints.....</b>	<b>25</b>
<b>12</b>	<b>Version Control .....</b>	<b>27</b>

### **1 Introduction**

#### **1.1 Purpose**

This Statement of Investment Policies, Standards and Procedures (Statement) establishes the framework set by the Guardians of New Zealand Superannuation (Guardians) for the governance and investment of the New Zealand Superannuation Fund (Fund) by providing a clear statement of the investment policies, standards and procedures that must be adhered to in investing the Fund.

In establishing and adhering to the policies, standards and procedures, Guardians must exercise its expert judgement. Guardians operates independently of the government and utilises its substantial experience, training, and expertise in the management of financial investments in its role.

#### **1.2 Legislative Requirements**

**Section 37** of the New Zealand Superannuation and Retirement Income Act 2001 (Act) establishes the Fund.

**Section 40** of the Act provides that the Fund is the property of the Crown.

**Section 48** of the Act and s 7 of the Crown Entities Act 2004 establishes the Guardians of New Zealand Superannuation as an Autonomous Crown Entity.

**Section 51** makes it a function of the Guardians to manage and administer the Fund in accordance with the Act.

**Section 58(2)** Act requires the Guardians to:

“invest the Fund on a prudent, commercial basis and, in doing so, must manage and administer the Fund in a manner consistent with –

- (a) best-practice portfolio management; and
- (b) maximising return without undue risk to the Fund as a whole; and
- (c) avoiding prejudice to New Zealand’s reputation as a responsible member of the world community.”

**Section 60** of the Act requires that:

- (1) “The Guardians must establish, and adhere to, investment policies, standards and procedures for the Fund that are consistent with its duty to invest the Fund on a prudent, commercial basis, in accordance with Section 58; and
- (2) The Guardians must review those investment policies, standards and procedures for the Fund at least annually.”

**Section 61** of the Act requires that:

“A statement of investment policies, standards and procedures must cover (but is not limited to) –

- (a) the classes of investments in which the Fund is to be invested and the selection criteria for investments within those classes; and
- (b) the determination of benchmarks or standards against which the performance of the Fund as a whole, and classes of investments and individual investments will be assessed; and
- (c) standards for reporting the investment performance of the Fund; and
- (d) ethical investment, including policies, standards or procedures for avoiding prejudice to New Zealand’s reputation as a responsible member of the world community; and
- (e) the balance between risk and return in the overall Fund’s portfolio; and
- (f) the Fund management structure; and
- (fa) the governance framework for the implementation and operation of Fund Investment Vehicles referred to in section 59A; and
- (g) the use of options, futures, and other derivative financial instruments; and

- (h) the management of credit, liquidity, operational, currency, market, and other financial risks; and
- (i) the retention, exercise or delegation of voting rights acquired through investments; and
- (j) the method of, and basis for, valuation of investments that are not regularly traded at a public exchange; and
- (k) prohibited or restricted investments or any investment constraints or limits.”

### 1.3 New Zealand Directive

As an Autonomous Crown Entity, Guardians operates on a statutorily independent basis. The Act provides for the Government to give directions regarding the Fund’s performance and the Guardians must have regard to it.

**Section 64** of the Act states that:

- (1) “The Minister may, after consultation with the Guardians, give directions to the Guardians regarding the Government’s expectations as to the Fund’s performance, including the Government’s expectations as to risk and return.
- (2) Despite anything to the contrary in the Crown Entities Act 2004, the Minister –
  - (a) must not give a direction that is inconsistent with the Guardians’ duty to invest the Fund on a prudent, commercial basis, in accordance with section 58; and
  - (b) must not give a direction to the Guardians in respect of the Fund except in accordance with this section.
- (3) The Guardians must notify the Minister of how the entity proposes to have regard to any direction.
- (4) The Guardian’s annual report must include a statement of how the entity is having regard, or has had regard, during the year to any Ministerial directions given under this section.”

On 14 May 2009 the Guardians received a letter from the Minister of Finance containing the following direction:

“The Government believes that it is in the national interest for the Fund to have significant investments in New Zealand. Consequently, pursuant to section 64 of the [Act], I direct the Guardians to note that it is the Government’s expectation, in relation to the Fund’s performance, that opportunities that would enable the Guardians to increase the allocation of New Zealand assets in the Fund should be appropriately identified and considered by the Guardians.”

On 2 June 2009 we provided a detailed response to the Minister outlining broad areas of investment opportunities that we were exploring in New Zealand. We concluded by saying:

“We will have regard for your directive by:

- Actively considering those investment opportunities in New Zealand that offer prospective terms and conditions that meet the criteria under section 58(2) of the Act, and;
- Seeking to identify methods of assessing and managing investments in the areas of opportunity outlined [in our letter].”

A full copy of both the Minister’s directive and our response can be found on our website.

#### **1.4 Investment Policies**

The Guardians investment and operational practices are governed by a suite of policies and the Responsible Investment Framework. Incorporated in to this Statement are the following policies:

- *Investment Risk Allocation Policy*, which broadly covers the classes of investments that we invest in, the value adding strategies we use, and the investment constraints we apply.
- *Externally Managed Investments Policy*, which covers how we invest with external investment managers.
- *Portfolio Completion and Internally Managed Securities Policy*, which covers how we ensure the Fund meets our desired risk allocations and the related management of internal investment mandates.
- *Strategic Tilting Policy*, which covers the value adding strategy we use to adjust the Fund’s risk exposures in response to changes in expected returns.
- *Direct Investment Policy*, which covers direct investments we make in investments not covered by the Portfolio Completion and Internally Managed Securities Policy.
- *Risk Management Policy*, which covers how we manage operational risks for the Guardians.
- *Procurement and Outsourcing Policy*, which covers how we enter into major procurement contracts other than with external investment managers.
- *Delegations Policy*, which covers how authorities are delegated from the Board to the Chief Executive Officer and to management.
- *Derivatives Policy*, which covers how we and our managers use derivatives in our management of the Fund.

- *Investment Valuation Policy*, which covers how we measure the fair value of all Fund investments.

For the most part the policies and standards described in s 61 of the Act (see 1.2 above) are contained in one or more of those policies. This Statement refers readers to the relevant section of the applicable policies. Usually the policies contain further policies or standards beyond what is required by s 61. In some instances the particular policy required by statute does not fit with one of the policies described in this section. In that case the policy and standards are described in this Statement.

This document refers to the Policies, Standards and Procedures we abide by when investing. Our Investment Beliefs and our approach to investing is explained on the How we Invest section in [www.nzsuperfund.co.nz](http://www.nzsuperfund.co.nz).

Procedures are referenced to the relevant policy specified in this Statement.

## **1.5 Interpretation**

To assist with the interpretation of this Statement and the policies referred to above, we have a comprehensive Glossary of Terms, which defines all technical and investment terms used. A copy of the Glossary can be found on our website.

## **1.6 Review**

This document is effective 24 June 2021 and supersedes all previous versions. It will be subject to at least annual review and amendment as our strategy for managing the Fund evolves. A history of the evolution of this document can be found in section 12.

Only the Board of the Guardians can approve material changes to this Statement.

## 2 Asset Classes and Selection Criteria

*Section 61(a) – the classes of investments in which the Fund is to be invested and the selection criteria for investments within those classes*

The Fund has two broad classes of investments: 1) the asset classes that comprise the Reference Portfolio and 2) opportunities to add value to the Reference Portfolio.

### 2.1 Policy

- 2.1.1 Policy statements relating to classes of investments can be found in section 6 (Asset Classes and Benchmarks) and section 8 (Value Adding Strategies and Opportunities) of the *Investment Risk Allocation Policy*.
- 2.1.2 Selection of assets within approved classes of investments is at the discretion of the Fund's investment managers (whether internal or external) subject to any constraints that we may place upon them.
- 2.1.3 Policy statements relating to selection of assets for internal investment management can be found in the *Portfolio Completion and Internally Managed Securities Policy*, the *Direct Investment Policy* and the *Responsible Investment Framework*.
- 2.1.4 Policy statements relating to selection of assets for external investment managers can be found in the *Externally Managed Investments Policy*.

### 2.2 Standards

- 2.2.1 Standards relating to the selection of investments can be found in Schedule 4 (Process for Opportunity Evaluation, Risk Budgeting and Fund-wide Liquidity Management) of the *Investment Risk Allocation Policy*.

### 2.3 Procedures

- 2.3.1 Procedures relating to classes of investments and the selection criteria for investments within those classes are referenced to the Policies specified above.

### 3 Benchmarks

*Section 61(b) – the determination of benchmarks or standards against which the performance of the Fund as a whole, and classes of investments, and individual investments will be assessed*

Benchmarks are a tool against which to measure the effectiveness of investment strategy either at a whole of Fund level, at an investment class or strategy level, or at the mandate level.

The general principle of benchmarks at an investment class or mandate level is they should be replicable – that is, it should be possible to create a portfolio of securities which mirrors (or at least very closely resembles) that used within the benchmark.

For some asset classes replicable benchmarks that are representative of the exposures of a given mandate may not exist, in which case performance may be measured against other measures such as the return on Treasury bills.

#### 3.1 Policy

- 3.1.1 The benchmarks we use for the Fund as a whole will measure the value added by the Fund relative to a risk-free alternative and the value added by the Fund relative to a low-cost passive implementation of the Fund (the Reference Portfolio).
- 3.1.2 Policy statements relating to the Fund's Reference Portfolio benchmarks can be found in section 7 (Reference Portfolio) of the *Investment Risk Allocation Policy*.
- 3.1.3 Policy statements relating to the Fund's value-adding investments can be found in section 6 (Asset Classes & Benchmarks) of the *Investment Risk Allocation Policy*.
- 3.1.4 The benchmarks we use to judge the performance of individual classes of investment must be broadly representative of that class, or where a representative benchmark is not available, of a suitably risk adjusted alternative.
- 3.1.5 The benchmarks we use to judge the performance of individual mandates (whether internal or external) must either be the benchmark for the investment class within which that mandate is managed or (as the case may be) broadly representative of the universe of investments from which the manager selects investments for the mandate or a suitably risk adjusted alternative. In a limited number of cases, some internal mandates have benchmarks that represent funding costs or have no benchmarks.

#### 3.2 Standards

- 3.2.1 The performance benchmarks we use for the Fund as a whole are:



- To exceed the compound New Zealand Treasury Bill over rolling 20 year periods; and
- To exceed the benchmark return for the Reference Portfolio being the weighted average return of the Reference Portfolio's constituent asset class benchmarks.

3.2.2 The performance benchmarks we use for classes of investments can be found in Schedule 2 (Asset Classes and Benchmarks) of the *Investment Risk Allocation Policy*.

3.2.3 We measure performance after the deduction of foreign taxes but before New Zealand tax.

### 3.3 Procedures

3.3.1 Procedures relating to performance benchmarks are referenced to the Policies specified above.

## 4 Reporting Standards

*Section 61(c) – standards for reporting the investment performance of the Fund*

Comprehensive reporting is critical for two reasons:

- it enables the Guardians to assess the reasons behind the performance of access points, opportunities, value add strategies and the Fund as a whole; and
- it enables the Fund's stakeholders to be fully informed of the activities of the Fund either through regular updates to the Fund's website or through the formal statutory reporting documents.

### 4.1 Policy

4.1.1 Policy statements relating to reporting on the performance of the Reference Portfolio, the performance of value adding strategies, compliance with the capital and risk constraints, and use of the Fund's risk budget can be found in section 12 (Reporting) of the *Investment Risk Allocation Policy*.

4.1.2 Policy statements relating to reporting on the performance of externally managed investments can be found in section 12 (Reporting) of the *Externally Managed Investments Policy*.

4.1.3 Policy statements relating to reporting on the performance of internal investment mandates can be found in section 13 (Reporting) of the *Portfolio Completion and Internally Managed Securities Policy*.

- 4.1.4 Policy statements relating to reporting on the performance of direct investments can be found in section 6 (Reporting) of the *Direct Investment Policy*.
- 4.1.5 Policy statements relating to reporting on the performance of strategic tilting can be found in section 8 (Reporting) of the *Strategic Tilting Policy*.
- 4.1.6 Policy statements relating to external reporting on the performance of the Fund can be found in section 11 (Reporting) of the *Communications Policy*.

## **4.2 Standards**

- 4.2.1 Standards relating to reporting on the performance of the Reference Portfolio, the performance of value adding strategies, compliance with the capital and risk constraints, and use of the Fund's risk budget can be found in Schedule 8 (Reporting Framework) of the *Investment Risk Allocation Policy*.
- 4.2.2 Standards relating to reporting on the performance of externally managed investments can be found in Schedule 6 (Reporting Framework) of the *Externally Managed Investments Policy*.
- 4.2.3 Standards relating to reporting on the performance of internal investment mandates can be found in Schedule 9 (Reporting and Accountability Framework) of the *Portfolio Completion and Internally Managed Securities Policy*.
- 4.2.4 Standards relating to reporting on the performance of direct investments can be found in Schedule 6 (Reporting Framework) of the *Direct Investment Policy*.
- 4.2.5 Standards relating to reporting on the performance of strategic tilting can be found in Schedule 3 (Reporting Framework) of the *Strategic Tilting Policy*.
- 4.2.6 Standards relating to external reporting on the performance of the Fund can be found in Schedule 2 (External Communications Issues) of the *Communications Policy*.

## **4.3 Procedures**

- 4.3.1 Procedures relating to reporting are referenced to the Policies specified above.

## 5 Responsible Investment

*Section 61(d) – ethical investment, including policies, standards, or procedures for avoiding prejudice to New Zealand’s reputation as a responsible member of the world community*

*Section 61(i) – the retention, exercise or delegation of voting rights acquired through investments*

Responsible investment has become the predominant framework for what was known as "ethical investment" at the time the Act was passed. Responsible investment is understood internationally to involve considering and giving effect to environmental, social and governance (ESG) considerations in investment management. When we refer to the term "Responsible Investment" we see it as encompassing ethical investment. Our own approach to Responsible Investment is also intended to ensure the Fund is managed and administered in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

This section of the Statement and the Responsible Investment Framework also addresses aspects of s 61(i) regarding the retention, exercise and delegation of voting rights. Section 8 of this Statement directly addresses other aspects required by s 61(i).

One of our Investment Beliefs (referred to in section 1.4 of the Statement) is that environmental, social and governance considerations, including climate change, are fundamental to long-term risk and return.

We believe that adherence to responsible investment best practice supports managing and administering the Fund in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

We have developed our Responsible Investment Framework (RI Framework) to cover procedures, including the integration of RI considerations into our investment process, and factors that we consider in applying the judgement needed to invest the Fund including meeting our obligations under sections 58(2), 61(d) and (i) of our Act.

Our RI Framework can be found on our website.

RI actions include investment integration, engagement, voting and exclusion from the Fund. We invest across a wide range of asset classes and regions. With such a breadth of investments, there will be, from time to time, holdings in the Fund that need special consideration under our RI Framework including with respect to exclusion and engagement. The RI Framework supports the implementation of the climate change investment strategy (CCIS).

### 5.1 Policy

5.1.1 We are committed to integrating consideration of RI issues into our investment decision making process.

5.1.2 We will apply standards and procedures that focus on:

- meeting relevant obligations under our Act;

- Our investment belief that "Environmental, social and governance considerations including climate change are fundamental to long-term risk and return";
- Developing guidelines to integrate RI considerations across different types of investments;
- Supporting our climate change investment strategy
- Effective engagement with the external investment managers and advisors we use and the companies we invest in;
- exercising our voting rights in investee companies;
- Considering investments which provide positive ESG benefits in addition to the required financial return;
- Maintaining a robust analytical and decision making process in responding to investee companies breaching standards contained in our RI Framework including decisions to exclude or engage with companies; and
- Benchmarking our performance against the UN-supported Principles for Responsible Investment (a globally accepted standard).

5.1.3 A policy statement relating to the constraint on investing in securities excluded by application of our RI Framework can be found in section 11 (Investment Constraints) of the *Investment Risk Allocation Policy*.

5.1.4 Where we participate in securities lending, we will retain the right to recall shares to vote and the right to withhold shares from lending, in order to exercise our voting rights on those securities.

5.1.5 From time to time we may participate in class actions against investee companies. The decision to participate involves a range of considerations including (a) whether the Fund suffered a loss/disadvantage and the materiality of the loss/disadvantage, (b) the severity of the issue or the conduct of the company, (c) the cost:benefit of pursuing the action, and (d) whether it is in the Fund's best interests to participate.

## 5.2 Standards

5.2.1 We refer to international standards for guidance on best practice.

5.2.2 We use globally recognised standards in two main ways: 1) for guidance on best practice in RI for investors and to benchmark our own performance (eg UNPRI); and 2) guidance on ESG best practice for companies which we use to assist our RI analysis (eg UN Global Compact).

- 5.2.3 We are committed to the UN-supported Principles for Responsible Investment (PRI). The principles promote integration of ESG issues into investment analysis and asset ownership.
- 5.2.4 We have adopted the UN Global Compact principles as a benchmark for expected standards of corporate behavior. The UN Global Compact asks companies to embrace, support, and enact within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption measures
- 5.2.5 Our voting decisions take into account national and international standards of good corporate governance. International standards include the International Corporate Governance Network Guidelines and the G20/OECD Principles of Corporate Governance. For New Zealand listed companies we endorse the New Zealand Corporate Governance Guidelines published by the New Zealand Corporate Governance Forum.

### **5.3 Procedures**

- 5.3.1 RI is integrated into investment of the Fund through the RI Framework and the application of it by the investment staff of the Guardians.
- 5.3.2 Procedures relating to RI are contained or referenced in the RI Framework.

## Balance Between Risk and Return

### *Section 61(e) – the balance between risk and return in the overall Fund portfolio*

Section 58(2)(b) of the Act requires the Fund to be invested in a manner consistent with “maximising return without undue risk to the Fund as a whole”.

In general the investment strategy adopted by the Fund, and in particular the Reference Portfolio, will have a dominant influence on the returns generated. The Reference Portfolio specifies the broad equilibrium mix between growth and income assets for the Fund which the Guardians believe best meets their statutory obligations. The Actual Portfolio of the Fund is the sum of:

- Reference Portfolio exposures; plus
- asset/investment exposures obtained through the Active Return Strategies; plus
- adjustments to Reference Portfolio exposures to accommodate the asset/investment market exposures described above; plus
- Strategic Tilting exposures;

The extent to which we can deviate from the risk exposures inherent in the Reference Portfolio is established by setting risk and capital constraints and an expectation of the average active risk as expressed by the Total Active Risk Budget.

### 6.1 Policy

6.1.1 Policy statements relating to the balance between risk and return in the Fund can be found in sections 7 (Reference Portfolio), 8 (Value Adding Strategies and Opportunities) and 10 (Investment Constraints) of the *Investment Risk Allocation Policy* and section 6 (Portfolio Completion) of the *Portfolio Completion and Internally Managed Securities Policy*.

### 6.2 Standards

6.2.1 Standards relating to the balance between risk and return in the Fund can be found in Schedules 3 (Reference Portfolio), 4 (Processes for Opportunity Evaluation, Risk Budgeting and Fund-wide Liquidity Management), 5 (Value Adding Strategies & Opportunities), 7 (Constraints) and 10A (Risk Budget) of the *Investment Risk Allocation Policy* and Schedule 2 (Portfolio Completion Frameworks) of the *Portfolio Completion and Internally Managed Securities Policy*.

### 6.3 Procedures

6.3.1 Procedures relating to the balance between risk and return in the Fund are referenced to the policies specified above.

## 7 Fund Management Structure

### *Section 61(f) – the Fund management structure*

We manage the Fund using a mixture of internal staff and external investment managers, custodians, suppliers and advisers to manage assets, provide advice on investment strategy, and administer the assets in the Fund.

The decision of whether to manage activities internally or outsource them to a third party is a complex one and must take into account a variety of factors including, but not limited to:

- Our ability to identify and contract with third parties with appropriate capability;
- Our ability to attract suitably skilled staff to undertake the role;
- The relative costs and resource intensity of undertaking the activity internally versus externally;
- The degree to which the third party's interests can be aligned with our interests.

To manage the Fund effectively we may use a range of specialist third-party agents including: custodians; prime brokers; portfolio completion agents; and securities lending agents.

### 7.1 Policy

- 7.1.1 Whether the preferred access is direct or via a manager will depend upon which offers the best risk adjusted returns, whether there is or can be sufficient internal capacity and skill to successfully implement and manage, and where there is the best alignment of interest.
- 7.1.2 We will continually monitor the use of external suppliers versus internal provision of services as part of an ongoing review of our business model.
- 7.1.3 A Master Custodian will be used to provide safe keeping of assets and trade settlement services.
- 7.1.4 Policy statements relating to delegations of authority can be found in the *Delegations Policy*.
- 7.1.5 Policy statements relating to the selection, appointment and ongoing monitoring of external investment managers can be found in sections 6 (Active Investment Decision Framework), 7 (Conviction and Monitoring), 8 (Investment Manager Fees), 9 (New Investment Implementation), 10 (Approvals) and 11 (Monitoring) of the *Externally Managed Investments Policy*.
- 7.1.6 Policy statements relating to the assessment, implementation and monitoring of direct investments in assets when external managers are not used and the investment is not a Financial Market Transaction governed by the *Portfolio*

*Completion and Internally Managed Securities Policy* can be found in the *Direct Investments Policy*.

7.1.7 Policy statements relating to the selection and appointment of the Master Custodian<sup>1</sup>, suppliers and external advisers can be found in sections 7 (Procurement) and 8 (Outsourcing) of the *Procurement and Outsourcing Policy*.

7.1.8 Policy statements relating to the selection and appointment of non-master custodians<sup>1</sup>, prime brokers, securities lending agents<sup>2</sup> (other than Securities Lending Investment Managers) and portfolio completion agents can be found in section 9 (Counterparty, Portfolio Completion Agent and Non-Master Custodian Selection and Exposure Management) of the *Portfolio Completion and Internally Managed Securities Policy*.

## 7.2 Standards

7.2.1 The quality, cost and degree of alignment of interests of an outsourced alternative provide the benchmarks against which opportunities to undertake roles internally will be judged.

7.2.2 Standards relating to delegations of authority can be found in the *Delegations Policy*.

7.2.3 Standards relating to the selection, appointment and ongoing monitoring of external investment managers can be found in Schedules 2 (Active Investment Decision Framework), 3 (Conviction and Monitoring Framework), 4 (Investment Manager Fees) and 5 (New Investment Implementation Framework) of the *Externally Managed Investments Policy*.

7.2.4 Standards relating to the assessment, implementation and monitoring of direct investments in assets when external managers are not used and the investment is not a Financial Market Transaction governed by the *Portfolio Completion and Internally Managed Securities Policy* can be found in schedules 2 (Due Diligence: Investment Case), 3 (Due Diligence: Implementation), 4 (Director Appointment and Monitoring), 5 (Investment Management) of the *Direct Investments Policy*.

7.2.5 Standards relating to the selection and appointment of the Master Custodian, suppliers and external advisers can be found in Schedules 2 (Procurement

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<sup>1</sup> Note that if we also use the custodian as a cash deposit institution then it is, for that activity, a Counterparty and the policies and standards applying to counterparties, as set out in the *Portfolio Completion and Internally Managed Securities Policy*, will also apply to it.

<sup>2</sup> Note this applies only if the securities lending agent is appointed to act without discretionary authority. If given a discretionary mandate then they will be a Securities Lending Investment Manager and the policies and standards in the *Externally Managed Investments Policy* will apply.



Framework) and 3 (Outsourcing Framework) of the *Procurement and Outsourcing Policy*.

- 7.2.6 Standards relating to the selection and appointment of custodians, prime brokers, securities lending agents (other than Securities Lending Investment Managers) and portfolio completion agents can be found in Schedule 6 (Counterparty Selection and Exposure Management and Minimum Requirements for PCAs and Non-Master Custodians) of the *Portfolio Completion and Internally Managed Securities Policy*.

### 7.3 Procedures

- 7.3.1 Procedures relating to the Fund management structure are referenced to the policies specified above.

## 7A Governance framework for Fund investment vehicles

Section 61(fa) - Governance framework for Fund investment vehicles

We may establish or control an entity for the purpose of holding, facilitating, or managing the investments of the Fund (a **Fund investment vehicle**).

There are a variety of reasons why we may use a Fund investment vehicle, including enabling us to structure and access investments more efficiently and help minimise liability and risk.

The decision of whether to use a Fund investment vehicle must take into account a variety of factors including:

- The primary prohibition on controlling an entity set out in s59 of the Act.
- Demonstrable benefits including enhancement of the efficiency, performance and management of risk and liability for the Fund.
- Ensuring that the Guardians does not conduct the day to day management and operation of a business.
- The costs of establishment, maintenance and winding up a Fund investment vehicle.

### 7A.1 Policy

7A.1.1 A Fund investment vehicle may only be used for the purpose of holding, facilitating or managing investments of the Fund.

7A.1.2 The use of a Fund investment vehicle must be consistent with the Guardians' mandate to invest the Fund on a prudent, commercial basis and in a manner consistent with:

- best-practice portfolio management,
- maximising return without undue risk to the Fund as a whole, and
- avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

- 7A.1.3 A Fund investment vehicle may not be used by the Guardians in a manner that causes it to contravene the Act or to circumvent the Act's restrictions on the Guardians.
- 7A.1.4 Fund investment vehicles will hold, facilitate and manage investments in accordance with the Policy Statements and the Investment Policies, that the Guardians adhere to in investing the Fund as are appropriate for that Fund investment vehicle and consistent with the management and administration of the Fund as a whole.
- 7A.1.5 The Investment Policies are listed in Section 1.4 above. The Policy Statements are Sections 2 (Asset Classes and Selection Criteria), 3 (Benchmarks), 4 (Reporting Standards), 5 (Responsible Investment), 6 (Balance Between Risk and Return), 7 (Fund Management Structure), 8 (Derivatives, Short Selling and Securities Lending), 9 (Risk Management), 10 (Valuation of Unlisted Assets), and 11 (Investment Constraints).
- 7A.1.6 Fund investment vehicles that are controlled by the Guardians will be included in the annual financial statements for the Fund and will be audited in accordance with the requirements of the Public Audit Act 2001 and/or other applicable law.
- 7A.1.7 The Official Information Act does not apply to the Fund investment vehicles. However, the Act will apply to the Guardians and the Guardians will ensure that the Guardians has the information about the Fund investment vehicles necessary for the Guardians to manage and administer the Fund in accordance with its mandate. Policy statements relating to the Official Information Act are found in the Communications Policy.

## **7A.2 Standards**

- 7A.2.1 Fund investment vehicles will hold, facilitate and manage investments in accordance with the investment standards that the Guardians adhere to in investing the Fund as are appropriate for that Fund investment vehicle and consistent with the management and administration of the Fund as a whole.
- 7A.2.2 The Standards are referenced in Sections 2 (Asset Classes and Selection Criteria), 3 (Benchmarks), 4 (Reporting Standards), 5 (Responsible Investment), 6 (Balance Between Risk and Return), 7 (Fund Management Structure), 8 (Derivatives, Short Selling and Securities Lending), 9 (Risk Management), 10 (Valuation of Unlisted Assets), and 11 (Investment Constraints).
- 7A.2.3 Standards relating to the reporting of the nature and purpose of the Fund investment vehicles utilised can be found in Schedule 1 (Matters Reserved to the Board, Board Committees and Chief Executive) of the *Delegations Policy*.
- 7A.2.4 Standards relating to the application of the Official Information Act can be found in Schedule 4 (Responding to Official Information Act requests) of the *Communications Policy*.

## 7A.3 Procedures

7A.3.1 Applicable procedures relating to the Guardians' investment policies and reporting standards will apply to the holding, facilitating or managing of investments by Fund investment vehicles. Procedures relating to Fund Investment Vehicles in particular are referenced to this Statement of Investment Policies and Procedures.

### Derivatives, short selling and securities lending

#### *Section 61(g) – the use of options, futures, and other derivative financial instruments*

In accordance with Section 50 of the Act, we have sought and received the Minister's approval to use derivatives and other specific instruments subject to certain conditions.

The Minister of Finance's current expectation is that we have the appropriate level of knowledge, skill, transparency and controls in place when we use derivatives, in order to ensure that negative financial or reputational outcomes do not impact the Crown.

Our assessment of the appropriate level of knowledge, skill, transparency and control in the use of derivatives will include:

- the objectives of the investment mandates,
- the overall risk profile of the investment mandates,
- the markets in which the investment mandates will be investing,
- the investment style to be employed,
- the experience, qualifications and skills available within the external investment managers and internal teams to use derivatives,
- the quality of internal controls/risk management procedures relevant to the use of derivatives,
- the characteristics of the specific derivative market – liquidity, quality of counterparty and availability of valuations and legal structure and the overall cost of establishing and maintaining a derivative position vs. a suitable equivalent cash security alternative, and
- reporting derivative usage including risk associated with their use together with expected returns.

We, and our appointed investment managers and portfolio completion agents, may enter into derivatives transactions on behalf of the Fund.

Derivatives are financial instruments whose value and characteristics are derived from, or linked to, underlying assets, indexes, or reference rates (such as an exchange rates or interest rates). Wide assortments of instruments are classified as derivatives: they include foreign exchange hedging, futures, swaps, repurchase agreements, warrants

and options.

There is a variety of purposes for which it may be appropriate for the Fund to invest using derivatives. These include risk, liquidity and counterparty management, transactional efficiency, and value adding investment strategies.

Derivatives can be a useful risk management tool by helping the Guardians to obtain desired exposures for the Fund. Derivatives that are highly liquid can also be useful, by helping to mitigate the risk of the Fund not having sufficient liquidity to meet its payment obligations.

Short selling of physical securities is a means by which we, or an investment manager, can take advantage of a view that the price of a security will fall. As its name implies short selling involves selling a security that we don't own. We do that by first borrowing the security from a securities lender. When we borrow we will be required to provide collateral in the form of cash or some other security. We pay a fee for borrowing securities. Short selling may also be used to hedge a long exposure.

When we lend securities we may lend them to short sellers, usually through a securities lending agent: in return the borrower (short seller) provides collateral for the period they borrow for. We receive a fee for lending the securities.

## 8.1 Policy

- 8.1.1 Policy statements relating to the use of derivatives by the Guardians and its managers are found in sections 4 (Scope) and 6 (Use of Derivatives) of the *Derivatives Policy*. Policy statements relating to short selling by the Guardians and its managers are found in Section 12 (Short Selling) of the *Portfolio Completion and Internally Managed Securities Policy*.
- 8.1.2 Policy statements covering the risks inherent in derivative use and the policy framework for managing those risks are set out in section 4 (Scope) of the *Derivatives Policy*.
- 8.1.3 Policy statements relating to Ministerial Consents and Expectations regarding the use of derivatives are set out in section 6 (Use of Derivatives) of the *Derivatives Policy*.
- 8.1.4 We may short sell physical securities to enhance the returns of the Fund, or to offset or otherwise manage certain exposures. Short selling will only be done after full consideration of the related risks, including the credit quality of the lender of the securities.
- 8.1.5 We will provide the amount and type of collateral consistent with market requirements. Collateral shall be required to be held by the prime broker or lender in a manner designed to safeguard it, to the extent possible, from the interests of other creditors of the lender. The short sale securities (borrowed securities) and the collateral shall be marked to market daily so that exposures may be monitored.
- 8.1.6 We may permit external investment managers to short sell securities where we are satisfied the investment manager has the necessary controls in place

to ensure prudent use of that ability and such use is consistent with the investment guidelines given to the investment manager.

- 8.1.7 We will not engage in or permit 'naked' short selling of physical securities, so will borrow securities to 'cover' a short sale of physical securities.
- 8.1.8 We may loan securities where we are satisfied with the credit quality of the counterparty who borrows the securities and that we are appropriately collateralised for the securities lent and the fee received is fair compensation for the use of our securities and the operational complexity involved.
- 8.1.9 We will apply our Responsible Investment approach and framework on withholding or recalls for voting purposes. Policy statements relating to securities lending are found in Section 11 (**Securities Lending**) of the *Portfolio Completion and Internally Managed Securities Policy*.
- 8.1.10 We may permit our external investment managers to loan securities where we are satisfied that the external investment manager has appropriate standards to evaluate the credit quality of the counterparty who borrows the securities and to ensure that we are appropriately collateralised for the securities lent. We will apply our Responsible Investment approach and framework on withholding or recalls for voting purposes.

## 8.2 Standards

- 8.2.1 Standards relating to the maintenance of appropriate standards to evaluate our competency and that of external investment managers to use derivatives as part of investment management can be found in Schedules 4 and 4A (Standards & framework for managing derivative Investment and non-Investment Risk) of the Derivatives Policy.
- 8.2.2 Standards relating to delegations of authority can be found in the *Delegations Policy*.
- 8.2.3 Standards relating to short selling can be found in Schedule 12 (Short Selling) of the *Portfolio Completion and Internally Managed Securities Policy*.
- 8.2.4 Standards relating to reporting of Derivative use and exposure are out in Schedule 3 (Reporting Framework) of the *Derivatives Policy*.
- 8.2.4 Standards relating to the maintenance of appropriate standards to evaluate credit quality of the counterparty who borrows securities, approved markets for lending, approved collateral and margin requirements as well as reporting on securities lending programme are outlined in the Securities Lending Internal Investment Mandate.

## 8.3 Procedures

- 8.3.1 We may authorise Securities Lending Investment Managers to manage any or all components of the programme's administration, cash collateral

reinvestment and risk management.

- 8.3.2 If we lend securities we will retain our rights to withhold or recall shares to exercise our voting rights. We will maintain guidance on when to withhold or recall shares. We will work with our securities lending agents to encourage good practice standards by borrowers including not borrowing for the primary purpose of voting.

## 9 Risk Management

*Section 61(h) – the management of credit, liquidity, operational, currency, market, and other financial risks*

Managing the Fund involves accepting and managing a wide variety of risks. Our approach to risk management involves the Board, Guardians' staff, and external partners.

### 9.1 Policy

- 9.1.1 Policy statements relating to the management of financial (including credit, liquidity, currency and market) risks can be found in sections 7 (Reference Portfolio), 9 (Proxies), and 10 (Investment Constraints) of the *Investment Risk Allocation Policy*, sections 6 (Portfolio Completion), 7 (Internal Investment Mandates), 8 (Product Approval) and 9 (Counterparty, Portfolio Completion Agent and Non-Master Custodian Selection and Exposure Management) of the *Portfolio Completion and Internally Managed Securities Policy* and sections 4 (Scope) and 6 (Use of Derivatives) of the *Derivatives Policy*.
- 9.1.2 Policy statements relating to the management of operational risks can be found in section 10 (Direct Transaction Management) of the *Portfolio Completion and Internally Managed Securities Policy*, sections 6 (Risk Appetite Statement) and 7 (Risk Management Framework) of the *Risk Management Policy* and sections 9 (New Investment Implementation) and 11 (Monitoring) of the *Externally Managed Investments Policy*.

### 9.2 Standards

- 9.2.1 Standards relating to the management of financial (including credit, liquidity, currency and market) risks can be found in Schedules 3 (Reference Portfolio), 6A (Proxy System), and 7 (Constraints) of the *Investment Risk Allocation Policy* and Schedules 2 (Portfolio Completion Frameworks), 5A (Approved Products), 6 (Counterparty Selection and Exposure Management and Minimum Requirements for PCAs and Non-Master Custodians) of the *Portfolio Completion and Internally Managed Securities Policy* and Schedule 4 and 4A (Standards and framework for managing derivative investment and Non-investment Risk) of the *Derivatives Policy*.
- 9.2.2 Standards relating to the management of operational risks can be found in Schedule 7 (Authorised Dealers and Dealing Controls) of the *Portfolio Completion and Internally Managed Securities Policy*, the schedules of the *Risk Management Policy* and Schedules 3 (Conviction and Monitoring Framework) and 5 (New Investment Implementation Framework) of the *Externally Managed Investments Policy*.

### 9.3 Procedures

- 9.3.1 Procedures relating to risk management are referenced to the policies specified above.

## 10 Valuation of Unlisted Assets

*Section 61(j) – the method of, and basis for, valuation of investments that are not regularly traded at a public exchange*

Many of the investments of the Fund are regularly traded on recognised exchanges and can be valued accordingly. Where they are not traded on recognised exchanges, the objective is to value those assets at fair value wherever possible.

### 10.1 Policy

10.1.1 Policy statements relating to the method and frequency of the valuation of all investments of the Fund can be found in sections 6 (Valuation approach), 7 (Valuation methodology categories), 8 (Hierarchy of fair value), 9 (Independent third party valuers), 10 (Frequency of valuations) and 11 (Consistency of valuations) of the *Investment Valuation Policy*.

### 10.2 Standards

10.2.1 Standards relating to the valuation of Fund investments can be found Schedules 2 (Valuation methodology categories) and 3 (Frequency of valuations) of the *Investment Valuation Policy*.

10.2.2 Standards relating to reporting to the Board on valuation matters are found in Schedule 4 (Reporting framework) of the *Investment Valuation Policy*.

### 10.3 Procedures

10.3.1 Procedures relating to the valuation of unlisted assets are referenced to the Policy specified above.



## 11 Investment Constraints

### *Section 61(k) – prohibited or restricted investments or any investment constraints or limits*

The Act does not proscribe investment in any particular asset or class of assets. Prohibitions and constraints are therefore imposed by the Guardians' policy and can be categorised as follows:

- capital or risk constraints that limit the variance of the Actual Portfolio from the Reference Portfolio
- investments that are prohibited by virtue of the Fund's Responsible Investment policies (see section 5); and
- the constraints within individual investment mandates.

### 11.1 Policy

- 11.1.1 Policy statements relating to investment constraints used to manage risk within the Fund can be found in section 10 (Investment Constraints) of the *Investment Risk Allocation Policy*.
- 11.1.2 Policy statements relating to investment constraints used to manage risk within individual investment mandates directly managed by the Guardians can be found within section 7 (Internal Investment Mandates) of the *Portfolio Completion and Internally Managed Securities Policy*.
- 11.1.3 We will set investment constraints used to manage risk within individual investment mandates managed externally as appropriate on a case by case basis.
- 11.1.4 Policy statements relating to investment constraints arising from application of the Guardians' Responsible Investment framework can be found in section 5 of this document and section 10 (Investment Constraints) of the *Investment Risk Allocation Policy*.

### 11.2 Standards

- 11.2.1 Standards relating to investment constraints used to manage risk within the Fund can be found in Schedule 7 (Constraints) of the *Investment Risk Allocation Policy*.
- 11.2.2 Standards relating to investment constraints used to manage risk within individual investment mandates directly managed by the Guardians can be found within Schedule 7 (Constraints) of the *Investment Risk Allocation Policy* and Schedules, 5A (Approved Products), and 6A (Counterparty Exposure Limits and Calculation) of the *Portfolio Completion and Internally Managed Securities Policy*.

- 11.2.3 Standards relating to investment constraints arising from application of the Guardians' Responsible Investment policies are referred to at section 5.2 of this Statement.

### **11.3 Procedures**

- 11.3.1 Procedures relating to investment constraints are referenced to the policies specified above.

## 12 Version Control

This is the twenty seventh version of this Statement of Investment Policies, Standards and Procedures. The history of the evolution of this Statement is as follows:

Version	Approved by Board	Change from Preceding Version
1	13 October 2003	Interim policy
2	10 November 2003	Derivatives section revised
3	29 March 2004	Ethical and voting policies revised
4	28 June 2004	Review of format to ensure consistency across each section
5	2 May 2006	Updated for revised Strategic Asset Allocation and other developments
6	19 June 2006	Minor changes throughout. Revised Investment Beliefs
7	31 July 2006	Revised Derivatives section and minor changes to section 12
8	11 September 2006	Revised section 6 (ethical investment) and section 11 (voting rights)
9	31 May 2007	Revised throughout. Voting & Ethical Investment combined into Responsible Investment. Securities Lending section added
10	31 May 2008	Revised throughout. Updated revised Strategic Asset Allocation and other developments
11	20 October 2008	Two revised benchmarks in section 4.3 and modification to wording of section 3.2.5
12	9 December 2008	Addition of section 3.2.3 on strategic tilting and some minor changes elsewhere to reflect strategic tilting. Section 3.2.4 on currency hedging updated for 10% target. Addition to section 3.2.5 to clarify rebalancing process.
13	9 February 2009	Revised treatment of hybrid securities in the asset class definitions in section 3.4, modification of wording in sections 3.3 and 3.4, and clarification added to section 9.2 on derivative exposures.
14	23 June 2009	Revised throughout for internal investment mandates. Introduction of cash as an asset class and concepts of duration and credit spread. Revised wording for investment beliefs in 2.2 and use of derivatives for liquidity and counterparty management purposes in 9.
15	7 July 2010	Revised throughout for Reference Portfolio concept and 2010 reference portfolio review. Revised wording for investment beliefs in 2.2 and changed approach to currency hedging.
16	1 July 2011	Comprehensive structural review to link to underlying policies.
17	12 June 2012	Minor revisions to sections 5 and 10.
18	18 June 2013	Modest changes to sections 5, 7 and 10.
19	19 June 2014	Changes in light of the Risk Budget to sections 4, 6 and 11 and other modest changes to sections 7, 8 and 10.
20	17 June 2015	Changes in light of the approval of a standalone Derivatives Policy and Valuation Policy in 2015. Changes in light of replacement of the "How we Invest" document with internal procedures.
21	17 June 2015	Changes in light of the requirements relating to the governance of Fund Investment Vehicles.
22	21 June 2016	Minor revisions to sections 2, 5, 7 and 9.
23	6 April 2017	Revisions to sections 5 and 8 for the Securities Lending

Version: 27

		programme.
24	19 June 2018	Annual Review
25	20 June 2019	Annual Review
26	24 June 2020	Annual Review
27	24 June 2021	Annual Review